

LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6917

BILL NUMBER: SB 560

NOTE PREPARED: Jan 24, 2015

BILL AMENDED:

SUBJECT: Property taxes and sales and use taxes.

FIRST AUTHOR: Sen. Young R Michael

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

STATE IMPACT	FY 2015	FY 2016	FY 2017
State Revenues	0	3,994,290,100	4,236,419,800
State Expenditures	0	1,417,860,000	2,853,592,700
Net Increase (Decrease)	0	2,576,430,100	1,382,827,100

Summary of Legislation: *Property Tax:* This bill eliminates property taxes on primary residences (homesteads) and business personal property. It prohibits changes in homestead and business personal property tax deductions, credits, and abatements that were in effect December 31, 2014.

Sales Tax: This bill decreases the state sales and use tax rate from 7% to 5.5%. It provides that the sales and use tax applies to transactions involving services, except for legal services, health or mental health services (including insurance premiums for policies covering these services), and services provided for charitable tax exempt purposes. The bill deposits the increased sales and use tax revenue in the state General Fund and it provides an annual state distribution to offset the property tax elimination for homesteads and business personal property based on the amount of property taxes that otherwise would be due on these homesteads and business personal property.

Renter's Deduction: This bill increases the maximum renter's deduction for income tax purposes from \$3,000 to \$8,000 per taxable year.

The bill makes conforming changes, technical corrections, and an ongoing appropriation.

Effective Date: Upon passage; July 1, 2015; January 1, 2016.

Summary of NET State Impact: This bill will result in overall positive state fiscal impacts estimated at \$2.58 B in FY 2016, \$1.38 B in FY 2017, and \$1.59 B in FY 2018.

	FY 2016	FY 2017	FY 2018
Sales Tax Revenue	4,060,290,100	4,302,419,800	4,558,811,200
Property Tax Replacement	(1,417,860,000)	(2,853,592,700)	(2,898,601,350)
Renters Deduction Revenue Loss	(66,000,000)	(66,000,000)	(66,000,000)
Net State Impact	2,576,430,100	1,382,827,100	1,594,209,850

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR may incur additional expenses in implementing the tax deduction and changes in the sales tax rate and base established by this bill. The DOR's current level of funding and resources should be sufficient to do so.

Explanation of State Revenues: *Sales Tax:* The bill decreases the sales and use tax rate from 7% to 5.5% effective beginning in FY 2016. This provision could decrease revenue by approximately \$1,457 M beginning in FY 2016. The bill also applies the 5.5% sales and use tax rate to services, with certain exceptions, which could increase revenue by approximately \$5,517 M beginning in FY 2016. The bill's net impact on sales tax revenue would be an increase of about \$4,060 M in FY 2016. The table below shows the bill's net impact on sales tax revenue in FY 2016 through FY 2018.

Net Increase (Decrease) in Sales and Use Tax Revenue (in millions)			
	FY 2016	FY 2017	FY 2018
Sales Tax on Goods	(\$1,457)	(\$1,525)	(\$1,596)
Sales Tax on Services	\$5,517	\$5,828	\$6,155
Net Sales Tax	\$4,060	\$4,302	\$4,559

The estimates for sales tax on goods are based on the Revenue Technical Committee forecast (December 18, 2014) for state sales and use tax revenue for FY 2016 and FY 2017. The estimates for sales tax on services are based on sales data for service industries from the Economic Census. The tax base for goods is adjusted upward to account for the reduction in prices due to the decreased sales tax rate. The tax base for services is adjusted downward to account for the increase in prices due to sales tax.

The bill also changes the distribution of sales and use tax revenue. It is estimated that the increased revenue will be deposited in the state General Fund in FY 2016. Other funds receiving sales tax revenue will likely receive a portion of the increased revenue in subsequent years. The following table shows the current and proposed sales tax revenue distributions.

Fund	Current Distribution	Proposed Distribution
General Fund	98.848%	99.248%
Motor Vehicle Highway Account	1%	0.653%
Industrial Rail Service Fund	0.029%	0.019%
Commuter Rail Service Fund	0.123%	0.08%

Renter's Deduction: This bill increases the maximum renter's deduction to \$8,000. The provision may decrease revenue into the General Fund by approximately \$64 M to \$66 M beginning in FY 2016. The estimate is based on Individual adjusted gross income (AGI) tax returns filed for tax year 2012 and contract rent data reported by the U.S. Census Bureau. [The summary table above uses the upper bound estimate.]

In 2012, 536,728 returns claimed the maximum deduction out of a total of 662,287 returns claiming the deduction. The group of 536,728 returns claiming the maximum deduction was distributed according to Indiana contract rent data published by the U.S. Census Bureau. A new renter's deduction amount was derived for those returns according to the contract rent distribution and the \$8,000 maximum deduction under the bill. The lower bound estimate accounts for the possibility that certain taxpayers will have insufficient Indiana AGI to claim the full deduction, while the upper bound assumes all taxpayers will be able to claim the full deduction.

Summary of NET Local Impact: Overall local revenues will decline by an estimated \$64.7 M in CY 2016, \$83.3 M in CY 2017, and \$94.8 M in CY 2018.

	Estimated Local Impact		
	CY 2016	CY 2017	CY 2018
Local Income Tax Revenue	(29,000,000)	(29,000,000)	(29,000,000)
Property Tax Revenue	(2,871,465,500)	(2,925,737,200)	(2,991,531,200)
State Property Tax Replacement	2,835,719,900	2,871,465,500	2,925,737,200
Net Local Impact	(64,745,600)	(83,271,700)	(94,794,000)

Explanation of Local Expenditures:

Explanation of Local Revenues: *Renter's Deduction:* The tax deduction will decrease taxable income, so counties imposing local option income taxes (LOIT) may experience revenue loss. Based on the current median LOIT rate of 1.45%, the statewide revenue loss may be approximately \$28 M to \$29 M beginning in FY 2016. [The summary table above uses the upper bound estimate.]

Property Tax: Property tax revenues will be replaced with state property tax replacement distributions that are equal to the previous year's net property tax on homesteads and personal property. The property tax reduction estimates are listed by property type in the table below.

Estimated Property Tax Reductions			
Property Type	CY 2016	CY 2017	CY 2018
Homestead	1,810,036,500	1,850,435,000	1,899,877,500
Personal Property	1,061,429,000	1,075,302,200	1,091,653,700
Total	2,871,465,500	2,925,737,200	2,991,531,200

This bill will provide a property tax exemption for property qualifying as homestead property and for personal property. The exemption works by eliminating the net property tax liability remaining after all other deductions, abatements, or credits. A deduction, abatement, credit, or allocation of revenue that reduces the net tax liability may not be changed after December 31, 2014.

The Department of Local Government Finance (DLGF) will calculate the total property tax distribution amount for each county in each year. The state auditor will make each year's distribution in two payments, in May and December.

Sales Tax: Local revenue would increase to the extent that a local unit receives sales tax revenue through distributions from the Motor Vehicle Highway Account, Industrial Rail Service Fund, or Commuter Rail Service Fund.

State Agencies Affected: Department of State Revenue; Department of Local Government Finance.

Local Agencies Affected: Counties with local option income taxes; County treasurers; County auditors; Local civil taxing units and school corporations.

Information Sources: LSA Income Tax Database; LSA Property Tax Model; Revenue Technical Committee Forecast, December 18, 2014; General Fund Revenue Forecast, Fiscal Years 2015-2017; U.S. Census Bureau, Economic Census, 2007 and 2012.

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